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AUDITOR-GENERAL  
SOUTH AFRICA

## Report of the auditor-general to the North West provincial legislature and the council on the Bojanala Platinum District Municipality

### Report on the audit of the financial statements

#### Disclaimer of opinion

1. I was engaged to audit the financial statements of the Bojanala Platinum District Municipality set out on pages xx to xx, which comprise of the statement of financial position as at 30 June 2017, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. I do not express an opinion on the financial statements of the Bojanala Platinum District Municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

#### Basis for disclaimer of opinion

##### VAT receivable

3. I was unable to obtain sufficient appropriate audit evidence for VAT receivable due to lack of reconciliations performed between the VAT statements of accounts and the accounting records. I was unable to confirm this receivable by alternative means. Consequently, I was unable to determine whether any adjustment to the VAT receivable of R5 759 575 presented in the statement of financial position and disclosed in note 7 to the financial statements was necessary.

##### Cash and cash equivalents

4. Section 125(2)(a)(ii) of the MFMA requires the disclosure of the balances for each bank account held. The municipality did not correctly disclose the cash book balances presented in the notes to the financial statements. Consequently the cash book balance disclosed in note 8 to the financial statements is overstated by R24 001 922 (2016: R21 301 562).

##### Property, plant and equipment

5. I was unable to obtain sufficient appropriate audit evidence that all work in progress has been accounted for in accordance with GRAP 17, *Property, plant and equipment* as the municipality did not have adequate systems in place to identify and record all work in progress in both the current and prior year. I was unable to confirm these assets by alternative means. In addition, the municipality did not componentise IT equipment additions acquired through a finance lease and the municipality did not review the residual values and useful lives of property, plant and equipment at each reporting date in accordance with GRAP 17, *Property, plant and equipment*. I was unable to quantify the full extent of the misstatement, as it was impracticable to do so. Consequently, I was unable to determine whether any further adjustment relating to property,



plant and equipment of R43 418 909 (2016: R37 477 811) presented in the statement of financial position and disclosed in note 2 to the financial statements was necessary.

### **Finance lease obligation**

6. The municipality incorrectly classified office equipment leases as finance leases instead of operating lease in accordance with the requirements of GRAP 13, *Leases* as there has not been a transfer of risks and rewards of ownership. Consequently, property, plant and equipment was overstated by R3 352 001 (2016: R5 890 341), non-current finance lease obligation was overstated by R956 717 (2016: R3 652 293) and the current portion of the finance lease obligation was overstated by R2 695 576 (2016: R2 452 201). Additionally, there was a consequential impact on operating lease expenditure, depreciation and finance charges for the period as well as on the surplus for the year and the accumulated deficit disclosed in the financial statements.

### **Payables from exchange transactions**

7. I was unable to obtain sufficient appropriate audit evidence for trade payables included in payables from exchange transactions due to a lack of proper record keeping and reconciliation of control accounts by the municipality. I was unable to confirm these trade payables by alternative means. In addition, the municipality incorrectly accounted for the provision for leave in accordance with their leave policy. This resulted in the provision for leave included in payables from exchange transactions and employee related costs being overstated by R6 203 973. Consequently, I was unable to determine whether any further adjustment to payables from exchange transactions of R37 904 436 (2016: R44 506 330) presented in the statement of financial position and disclosed in note 13 to the financial statements was necessary.

### **Employee benefits**

8. The municipality incorrectly calculated the employee benefit obligation for post-retirement health care benefits in terms of GRAP 25, *Employee benefits* by using the incorrect monthly medical aid contributions in the calculation. Consequently, the employee benefit obligation disclosed in note 4 to the financial statements was understated by R3 637 555 (2016: R663 192) and employee related cost disclosed in note 19 to the financial statements was understated by R3 637 555 (2016: R663 192). Additionally, there was a consequential impact on the surplus for the year and the accumulated deficit disclosed in the financial statements.

### **Provisions**

9. The municipality incorrectly calculated the provision for long service awards in terms of GRAP 25, *Employee benefits*. Consequently, the provision for long service awards disclosed in note 12 to the financial statements and employee related cost disclosed in note 19 to the financial statements are overstated by R3 967 518 (2016: R1 874 439). Additionally, there was a consequential impact on the surplus for the year and the accumulated deficit disclosed in the financial statements.

### **Accumulated deficit**

10. I was unable to obtain sufficient appropriate audit evidence for the accumulated deficit disclosed in the financial statements due to unreconciled differences between the financial statements and the underlying accounting records. I was unable to confirm the accumulated deficit by alternative means. Consequently, I was unable to determine whether any adjustments to the accumulated deficit of R 38 004 316 (2016: R39 962 951) disclosed in the statement of financial position and the statement of changes in net assets, were necessary.

### **Other income**

11. The municipality did not correctly account for other income as required by GRAP 9, *Revenue from exchange transactions*. Consequently, other income disclosed in note 15 and receivables

from exchange transactions disclosed in note 6 to the financial statements were understated by R10 375 000 due to environmental fines levied, being incorrectly recognised. The municipality also incorrectly recognised the movement in the leave provision as other income, resulting in other income and employee related costs disclosed in note 19 to the financial statements being overstated by R3 299 195. Additionally, there was a consequential impact to the surplus for the year and the accumulated deficit disclosed in the financial statements.

### **Employee related costs**

12. During 2016, I was unable to obtain sufficient appropriate audit evidence for employee related costs due to variances between the accounting system and the payroll system that could not be explained by management. Consequently, I was unable to determine whether any adjustment to employee related costs of R143 397 898 was necessary. In addition, performance bonuses and provision for staff leave included in employee related cost were understated by R7 450 789. My audit opinion on the financial statements for the period ended 30 June 2016 was modified accordingly. I was still unable to confirm this employee related costs by alternative means. Consequently, my opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

### **Remuneration of councillors**

13. During 2016, I was unable to obtain sufficient appropriate audit evidence for remuneration of councillors due to variances between the accounting system and the payroll system that could not be explained by management. Consequently, I was unable to determine whether any adjustment to remuneration of councillors of R13 720 823 was necessary. My audit opinion on the financial statements for the period ended 30 June 2016 was modified accordingly. I was still unable to confirm this remuneration of councillors by alternative means. Consequently, my opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

### **General expenses**

14. I was unable to obtain sufficient appropriate audit evidence for general expenses, as documentation to support selected transactions was not provided for audit. I was unable to confirm these general expenses by alternative means. Consequently, I was unable to determine whether any adjustments to general expenses of R64 429 092 (2016: R53 223 182) disclosed in the statement of financial performance, were necessary.

### **Grants and subsidies paid**

15. During 2016, I was unable to obtain sufficient appropriate audit evidence for grants and subsidies paid, as documentation to support selected transactions was not provided for audit. Consequently, I was unable to determine whether any adjustments to grants and subsidies of R93 695 862 were necessary. My audit opinion on the financial statements for the period ended 30 June 2016 was modified accordingly. I was still unable to confirm these grants and subsidies paid by alternative means. Consequently, my opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

16. The municipality incorrectly expensed capital expenditure relating to capital projects undertaken during the financial year, instead of capitalising these costs as required by GRAP 17, *Property, plant and equipment*. Consequently, grants and subsidies paid disclosed in note 17 to the financial statements was overstated and Property, plant and equipment disclosed in note 2 to the financial statements was understated by R14 149 006 respectively. Additionally, there is a consequential impact on the surplus for the year and the accumulated deficit disclosed in the financial statements.

## **Cash flow statement**

17. The calculation of the net cash outflow from operating activities, cash flow from investing activities and cash flow from financing activities for the current and prior period did not appropriately account for cash and non-cash items as required by GRAP 2, *Cash flow statements*. The municipalities system did not allow the performance of alternative procedures to determine the extent of this misstatement. Consequently, I was unable to obtain sufficient appropriate audit evidence to confirm the accuracy of the net cash flow from operating activities, cash flow from investing activities and cash flow from financing activities included in the cash flow statement and the notes thereto.

## **Statement of comparison of budget and actual amounts**

18. GRAP 24, *Presentation of budget information in the financial statements* requires the presentation of the budget information including a statement of comparing the budget and actual amounts as well as reasons for variances. The budget amounts included in the statement of comparison between budget and actual amounts did not agree to the final approved budget of council. Consequently, the variances and reasons for variances between the actual and budgeted amounts disclosed in the statement of comparison of budget and actual amounts, was not complete.

## **Lease commitments**

19. The municipality did not correctly disclose operating lease commitments in accordance with GRAP 13, *Leases* due to the incorrect lease amounts being used in the calculation thereof. Consequently, operating lease commitments disclosed in note 29 to the financial statements was overstated by R7 216 385 (2016: R2 794 111).

## **Prior period errors**

20. I was unable to obtain sufficient appropriate audit evidence for the prior period errors disclosed in note 32 and 33 as documentation to support these transactions was not provided for audit. In addition, the municipality did not correctly disclose corrections made to prior period errors in notes 32 and 33 respectively. The nature, the amount of the correction for each financial statement line item affected and the amount of the correction at the beginning of the earliest prior period were not disclosed as required by GRAP 3, *Accounting policies, estimates and errors*.

## **Unauthorised expenditure**

21. Section 125 of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) requires the disclosure of unauthorised expenditure incurred. The municipality incorrectly calculated unauthorised expenditure in the current year, resulting in the current year unauthorised expenditure being overstated by R31 891 027. During 2016, the municipality also incurred unauthorised expenditure of R19 992 610 due to overspending of individual votes within the budget which was not included in the unauthorised expenditure disclosed in the financial statements for the period ended 30 June 2016. Consequently, the closing balance for unauthorised expenditure as disclosed in note 37 to the financial statements was overstated by R11 898 417 (2016: understated by R19 992 610).

## **Fruitless and wasteful expenditure**

22. Section 125 of the MFMA requires the disclosure of fruitless and wasteful expenditure incurred. The municipality incurred fruitless and wasteful expenditure of R1 592 838 (2016: R2 653 647) which was not included in fruitless and wasteful expenditure disclosed. Consequently, fruitless and wasteful expenditure disclosed in note 38 to the financial statements was understated by R4 246 485 (2016: R2 653 647).

## **Irregular expenditure**

23. Section 125 of the MFMA requires the disclosure of irregular expenditure incurred. The municipality did not correctly disclose irregular expenditure as some items disclosed did not meet the definition of irregular expenditure. In addition, the municipality made payments in contravention of the supply chain management requirements which were not included in the irregular expenditure disclosed. The municipality did not quantify the full extent of the irregular expenditure incurred, consequently it was impracticable to determine the resultant understatement of irregular expenditure of R212 158 852 (2016: R168 103 870) disclosed in note 39 to the financial statements.
24. SCM regulation 36(2) requires the disclosure of deviations from inviting competitive bids. The municipality made payments of R42 187 292 (2016: R8 351 795) by deviating from inviting competitive bids. These deviations were not disclosed in the financial statements as required.

## **Material uncertainty relating to going concern**

25. I draw attention to the matter below. My opinion is not modified in respect of this matter.
26. As disclosed in note 35 to the financial statements, the municipality's current liabilities exceed its current assets by R38 004 316 for the year ended 30 June 2017. These events or conditions, along with other matters set forth in note 35, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

## **Emphasis of matter**

27. I draw attention to the matter below. My opinion is not modified in respect of this matter.

## **Material uncertainty relating to contingencies**

28. As disclosed in note 30 to the financial statements the municipality has contingent liabilities of R16 664 879 which will only be confirmed after the occurrence of a future event.

## **Other matter**

29. I draw attention to the matter below. My opinion is not modified in respect of this matter.

## **Unaudited disclosure notes**

30. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

## **Responsibilities of the accounting officer for the financial statements**

31. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the MFMA and the Division of Revenue Act of South Africa, 2016 (Act No. 3 of 2016) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
32. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless there is an intention either to liquidate the municipality or to cease operations, or there is no realistic alternative but to do so.

## **Auditor-general's responsibilities for the audit of the financial statements**

33. My responsibility is to conduct an audit of the financial statements in accordance with International Standards on Auditing (ISAs) and to issue an auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.
34. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) together with the ethical requirements that are relevant to my audit of the financial statements. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

### **Report on the audit of the annual performance report**

#### **Introduction and scope**

35. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
36. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
37. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2017:

<b>Development priorities</b>	<b>Pages in the annual performance report</b>
Basic service delivery and infrastructure development	x – x
Local economic development	x – x

38. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
39. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

## Basic service delivery and infrastructure development

### Indicator: Number of sporting codes in all 5 local municipalities supported by BPDM with equipment by 30 June 2017

40. The reported achievement for this indicator was misstated as the evidence provided indicated 0 and not 5 as reported.

### Various indicators: Requested supporting documents for reported achievements not sufficient

41. I was unable to obtain sufficient appropriate audit evidence to verify the reliability of the following indicators. This was due to limitations placed on the scope of my work. I was unable to confirm whether the reported achievements of these indicators were reliable by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements for the following indicators:

Indicator	Reported achievement
Number of municipal health outreach activities conducted for environmental health compliance with legislation by 30 June 2017	7
Number of waste management awareness campaigns implemented in 5 local municipalities by 30 June 2017	5

### Indicator: Number of biodiversity projects implemented in Rustenburg, Moretele, Moses Kotane and Kgetlengrivier Local Municipalities by 30 June 2017

42. The indicator was not well-defined as the evidence to be used to report the actual achievement of the planned indicator was not clearly defined, as required by the Framework for Managing Programme Performance Information (FMPPI).

## Local economic development

43. I did not identify any material findings on the usefulness and reliability of the reported performance information for this development priority.

## Other matters

44. I draw attention to the matters below.

### Achievement of planned targets

45. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 40 to 42 of this report.

### Adjustment of material misstatements

46. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information from the development priorities for Basic service delivery and infrastructure development and Local economic development. As management subsequently corrected only some of these misstatements, I reported material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

## Report on the audit of compliance with legislation

### Introduction and scope

47. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
48. The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

### Strategic planning and performance management

49. The service delivery and budget implementation plan (SDBIP) for the year under review did not include monthly revenue projections by source of collection and the monthly operational and capital expenditure by vote, as required by section 1 of the MFMA.
50. The review of the integrated development plan (IDP) of the municipality was not done in accordance with the results of the performance evaluation as required by section 34(a) and 41(1)(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

### Annual financial statements, performance and annual reports

51. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided, which resulted in the financial statements receiving a disclaimer of audit opinion.
52. The 2015-16 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.
53. The council failed to adopt an oversight report containing the council's comments on the annual report within the prescribed timelines, as required by section 129(1) of the MFMA.

### Budget

54. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The unauthorised expenditure disclosed does not reflect the full extent of the unauthorised expenditure incurred as indicated in the basis for disclaimer of opinion paragraph.

### Expenditure management

55. Effective steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for disclaimer paragraph. The majority of the disclosed irregular expenditure was caused by not following the competitive bidding process as required by SCM regulation 19(a).
56. Effective steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the fruitless and wasteful expenditure incurred as indicated in the basis for disclaimer paragraph. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties incurred due to late payment.
57. Money owed by the municipality was not always paid within 30 days as required by section 65(2)e of the MFMA.

58. An adequate management accounting and information system which recognised expenditure when it was incurred, was not in place as required by section 65(2)(b) of the MFMA.

#### **Asset and liability management**

59. An effective system of internal control for the management of assets and liabilities was not in place, as required by section 63(2)(c) of the MFMA.

#### **Human resource management**

60. Appointments were made in posts outside of the approved staff establishment, as required by section 66(3) of the MSA.

61. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted as required by section 67(1)(d) of the MSA.

#### **Procurement and contract management**

62. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements as documentation to support the process was not submitted for audit.

63. Goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1). Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for projects relating to the upgrading of internal roads in Letlhakeng Village, the construction of toilets in Moretele Local Municipality, the provision of ablution facilities in Mmakau Village, the construction of a pipeline and communal stand pipes in Mogolelo Village and the energy programme of retrofitting 200 street lights in Mabela-a-budi Village.

64. The preference point system was not applied in the procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act 5 of 2000.

65. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e) and the code of conduct for staff members issued in terms of the MSA.

66. Some of the good and services with a transaction value of below R 200 000 were procured without obtaining the required number of price quotations in contravention of SCM regulations 17(a) and (c). Similar non-compliance was also reported in the prior year.

#### **Consequence management**

67. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) and (b) of the MFMA.

#### **Other information**

68. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report thereon and those selected development priorities presented in the annual performance report that have been specifically reported on in the auditor's report.

69. My opinion and findings do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

70. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

71. I did not receive the other information prior to the date of the auditor's report. When I do receive this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to re-issue my auditor's report amended as appropriate.

## Internal control deficiencies

72. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

- Leadership did not provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the best interests of the municipality. Furthermore, there was a lack of oversight responsibility regarding financial and performance reporting, compliance and related internal controls.
- Management did not design and implement internal controls to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, the effectiveness and efficiency of operations and compliance with applicable legislation. Furthermore, the post audit action plan was not adequate to address prior year audit findings; consequently there were numerous instances of repeat audit findings identified during the current year's financial audit.
- Internal audit was not adequately resourced in order to identify internal control deficiencies and recommend effective corrective action. Furthermore, the audit committee was not functional for the entire year, as a result the audit committee was unable to provide adequate oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

*Auditor-General.*

Rustenburg

30 November 2017



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SOUTH AFRICA

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